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USSR WEEKLY REVIEW

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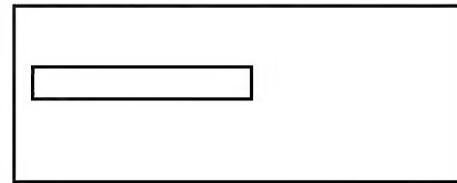
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Mixed Signals at Kulakov Award Ceremony

The circumstances surrounding the presentation of the Hero of Socialist Labor award to Central Committee secretary Fedor Kulakov on 9 February in honor of his 60th birthday suggested some disagreement between President Brezhnev and other leaders about Kulakov's standing. In this highly protocol-conscious regime, several aspects of the affair indicated that Kulakov was being elevated, but in presenting the award Brezhnev was noticeably cool in his remarks. This coolness was particularly striking when contrasted with Brezhnev's warm remarks at the presentation of a Hero award to another of the younger Politburo heirs-apparent, Ukrainian party boss Shcherbitskiy, last September.

The award of a Hero medal for a Politburo member's 60th birthday is virtually automatic, but the media treatment of Kulakov's award was on a level previously reserved for the 70th birthday of a Politburo member. Greetings to Kulakov from central leadership bodies, for example, consisted of three paragraphs in the press. At least since 1965, full Politburo members have rated a two-paragraph official greeting on their 60th birthdays, and three paragraphs on their 70th birthdays. Kulakov's picture in the press also was noticeably larger than those of previous 60th birthday celebrants.

In wishing Kulakov further success, the greeting included the phrase "with all our heart," which is normally reserved for 70th birthdays. Only KGB Chief Andropov had been honored with this phrase on his 60th birthday.

The greetings to Kulakov were identical to those given Kirilenko, who is generally regarded as Brezhnev's heir apparent, on his 70th birthday, except for the omission of the phrase, "our dear friend and comrade." This phrase has been used on all 70th birthdays.

The special treatment accorded Kulakov cannot be entirely explained by the fact that he is a member of

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the Secretariat as well as a full member of the Politburo. Kirilenko also held both positions at the time of his 60th birthday. The implication is that Kulakov has been honored as a senior leader, outranking other Politburo members of his age group.

Another prestige indicator was the fact that Kulakov's award was presented at an individual ceremony held only five days after his birthday. By contrast, the last medals awarded Politburo members were delayed and presented in a group ceremony. Two other Politburo members, Ukrainian Party head Shcherbitskiy and Belorussian Party head Masherov, also have 60th birthdays in February, which could easily have provided a rationale for combining Kulakov's award presentation with theirs in a group ceremony later in the month.

Finally, Kulakov's birthday was also commemorated by publication of a body of his speeches and articles. No other Politburo member of his age group has been so honored.

The prominence accorded Kulakov is especially noticeable in view of the coolness of Brezhnev's remarks about him in the presentation of the award. Compared with Brezhnev's enthusiastic endorsement of a Hero award to his long-time protege Shcherbitskiy in a ceremony last September, Brezhnev's speech at Kulakov's ceremony can only be read as an effort to downgrade Kulakov.

Brezhnev labeled Kulakov an "agricultural expert," noting that since an early age he had worked primarily in that sector. He even seemed to allude to shortcomings in this capacity by stating that "any great task is bound to be beset with difficulties." Not only did Brezhnev make no effort to portray Kulakov as a man of broad experience, he did not even refer to Kulakov's leadership role, noting instead only his "services" to the party and state.

Kulakov's narrow background as an agriculture specialist is his major liability as a succession contender. By playing on this theme, Brezhnev apparently meant to imply that Kulakov lacked the broad experience that a job with broader responsibilities than his current one would require. By contrast, last September Brezhnev

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spoke about Shcherbitskiy's experience in "various sectors of party and government work" and drew attention to Shcherbitskiy's leadership experience by making a rare and complimentary reference to him as the "head" of the Ukrainian Central Committee. (These remarks were made on the occasion of the award of a Hero medal to Shcherbitskiy for outstanding work in directing the Ukrainian harvest.)

When his turn at the podium came, Kulakov attempted to correct the record by stressing that he had had a long party career with experience in "industry, economic, Komsomol, soviet, and Party work" at every administrative level. He went on to note that he had spent 12 years "in the central headquarters of our party," and opined that "work in the Central Committee is the greatest school." The unspoken insinuation was that some of his Politburo peers, such as Shcherbitskiy--who has never had a Moscow job--were country cousins lacking the experience at the center required of any serious succession contender.

Finally, Brezhnev made no reference to his long personal association with Kulakov, again in contrast to his treatment of Shcherbitskiy last year. At the ceremony for Shcherbitskiy Brezhnev had emphasized his personal ties to Shcherbitskiy by remarking that he, Brezhnev, "perhaps even better than many other comrades" knew how well Shcherbitskiy performed his job, and by stating that he remembered well Shcherbitskiy's work "at the plant where I was also once employed."

Kulakov was less reticent in complimenting his chief, rendering praise of Brezhnev at least as strong as that given by Shcherbitskiy and Kazakh Party head Kunayev at their award ceremonies last year. Kulakov's praise of Brezhnev seemed to indicate that any difficulties between him and Brezhnev were not of his own making.

We may know more about the relative standing of Kulakov and Shcherbitskiy when Shcherbitskiy turns 60 on 17 February. If precedent is followed, Shcherbitskiy will also be given a Hero award. Only once in the Brezhnev era has a full member of the Politburo, Voronov, failed to receive a Hero medal on his 60th birthday. This slight to Voronov was followed shortly by his political demotion.

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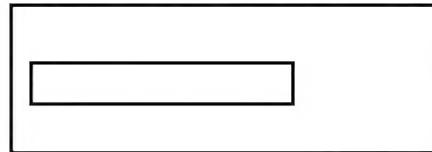
Shcherbitskiy's case is atypical, however, since he already has two Hero awards--more than any of the other junior Politburo members thought to be potential successors to Brezhnev. These awards, both for the production of good harvests in the Ukraine, are in keeping with a trend in recent years of honoring successful republic first secretaries in this fashion.

If Shcherbitskiy now receives a third award, he will become the only Politburo member other than Brezhnev to have three Hero medals. A strong argument could be made for denying Shcherbitskiy the award and enhancing his position beyond that of his Politburo peers. Defense Minister Ustinov did not receive a third Hero award on his 60th birthday. His case was not strictly analogous, since he was only a candidate member of the Politburo at the time, but it could be cited as a precedent should any leader be seeking an excuse to pass over Shcherbitskiy.

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Soviet Industrial Performance in 1977 and Outlook for 1978

Soviet Industry in 1977

Industrial output--the traditional mainstay of Soviet economic performance--continued to falter in 1977, frustrating Moscow's plans for revitalizing economic growth. According to data released by the Central Statistical Administration last month, Soviet industry mustered only a 4.1 percent annual rate of growth in production last year. This rate rivals a grim performance of 3.8 percent in 1976--the slowest rate posted since World War II. It seems doubtful that this year's effort will be much better.

Production of an unprecedented number of commodities fell short of their targets in 1977. Growth in industrial materials fell to an all-time low of 3 percent. Particularly hard hit were ferrous metals, construction materials, electric power, and crude oil which all posted record low growth rates.

The failure of the Ministry of Ferrous Metals to achieve its production plans is probably the most disconcerting to Soviet leaders. The 1 percent growth in the output of ferrous metals represents a shortfall of more than 4 percent below plan. Stagnation in finished steel output is the result of inadequate past investment in steel-making facilities and insufficient supplies of high-quality raw materials. A decline in iron ore quality has forced increased investment in ore mining and beneficiation projects, but has not halted a slowdown in the growth of ore production. Scrap, the other principal steel-making ingredient, is also in short supply, the result of bottlenecks in rail transportation and failure of other ministries to supply planned quantities of scrap.

The decline in the growth of electric power production reflects continuing difficulties in providing

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adequate fuel resources for thermal power plants, particularly in European USSR where the generating facilities rely primarily on relatively scarce oil and gas. Fuel shortages last year led to the adoption of a resolution by the Council of Ministers calling for conservation in both energy and electric power usage. In addition, the construction industry has lagged in adding new generating capacity in the European areas where demand is greatest. Low water levels in the rivers also limited the use of hydroelectric plants.

Problems in the production of construction materials also could be the result of fuel limitations and conservation measures. This industry requires heavy doses of both fuel and electric power. Attempts to decrease its fuel-intensiveness would require a massive overhaul of the capital stock--the replacement of wet-process kilns with dry-process ones. Such an effort would demand massive investment funds during a long period of conversion, probably resulting in a further slowdown in the growth of output.

The chemical industry recovered slightly from its record low growth in 1976. Even so, several major chemicals fell short of their targets--fertilizer, soda ash, caustic soda, sulfuric acid, plastics and resins, and chemical fibers. These shortfalls were due mainly to the construction industry's failure to introduce new capacity on time.

Even the usually fast-growing machinery sector fell prey to the slump in 1977. There are growing signs that the shortfalls in ferrous metals have begun to hurt machinery production, especially the output of spare parts. The decline in freight car and diesel locomotive production could aggravate the existing bottleneck in railroad transportation. During 1977 the Soviet press cited freight car shortages for limiting deliveries of coal, grain, iron and manganese ore, scrap, fertilizer, petroleum products, and foreign trade goods. A decline in turbine production--together with below plan output of generators, electric motors, machine tools, and oil equipment--could aggravate the problems in the industrial materials sector, especially the branches already experiencing difficulties.

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Consumer goods production showed a significant improvement last year--the result of a good agricultural performance in 1976. Although processed food production rebounded by 5 percent, the level of food output was only marginally above that of 1975. Moreover, several important commodities fell below target--in particular, meat, vegetable oil, and fabrics.

The 1978 Plan

The new plan has been designed to treat bottlenecks affecting industrial performance while avoiding the thorny question of the need for major economic reform. Gosplan Chairman Baybakov conceded the existence of bottlenecks when he stated: "In drawing up the plan . . . work was carried out to improve intersector proportions and to achieve a balance of capital construction with material, technical, and labor services" Thus, investment priorities have been revised from those stipulated at the beginning of the current five-year plan. The 1978 plan calls for the allocation of more resources to energy, ferrous metals, and railroad transportation.

A major feature of the industrial plan is a substantial boost in the production of ferrous metals. Although planned 1978 output is virtually equivalent to 1977's plan, in view of the shortfall last year achieving these targets would require one of the largest absolute increments ever achieved by that industry. A new plant scheduled to begin operations this year will help if the current new material squeeze is moderated, but it will probably be at least a year before that plant approaches full capacity. In light of these problems, Soviet planners are urging steel users to economize as much as possible.

Baybakov cautioned that the current steel malaise, if uncorrected, could adversely affect the machinery sector--the usual Soviet star performer. The uncertainties about steel supplies, however, have prompted the planners to set forth the smallest planned machinery growth since World War II. Although the data are fragmentary, the machinery plan seems to envision an internal restructuring of output that would facilitate completion of industrial projects already under way, for example,

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equipment for nuclear power stations, instruments, and large electrical machines. Also, agricultural machinery retains its high-priority status. Finally, the plan calls for a marked upgrading of the existing railway rolling stock. Little mention of consumer durables appeared in the plan. If steel output continues to stagnate, consumer durables probably would be one of the machinery sectors cut back.

The plan rather ambitiously anticipates a pick-up in the growth of electric power and coal and no slackening of the growth in oil and gas condensate. Only gas--the one source of energy that exceeded its 1977 target--is planned to grow at a slower rate this year. Baybakov stressed the need for the economy to conserve energy in order to assure uninterrupted fuel supplies. In an attempt to boost future production, more resources are to be devoted to geological prospecting work, especially for oil. The growth of strip-mining is to be encouraged to facilitate the extraction of additional coal.

In 1977, the construction industry was universally blamed for causing production deficiencies in ferrous metals, petroleum refining, petrochemicals, chemicals, and construction materials. As in 1977, the 1978 plan focuses on completing existing projects and deferring the initiation of new ones. The Soviet track record in this area, however, is not encouraging, and the continuing taut supplies of fuel, power, and industrial materials do not bode well for major breakthroughs in bringing new capacity on stream more rapidly.

Soviet industry probably can look forward to another year of relatively slow growth. Indeed, given the present outlook for labor, capital, and materials supply, Soviet industry will do well to maintain a 4 percent annual growth rate this year.

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1977 Soviet Industry in Perspective
(Percentage Average Annual Growth
of Selected Commodities)

	<u>1971-75 Actual</u>	Five-Year Plan		
		<u>1976-80</u>	<u>1976</u>	<u>1977</u>
Industrial Production	6.1	6.3	3.8	4.1
Industrial Materials	5.4	6.0	3.6	2.8
Ferrous Metals				
Crude Steel	4.0	3.6	2.8	1.4
Rolled Steel	4.1	3.5	2.3	0.7
Steel Pipe	5.2	3.0	5.0	1.2
Energy	5.1	5.2	4.9	5.0
Coal	2.4	2.8	1.6	1.4
Oil	6.8	6.9	5.9	5.0
Gas	7.9	7.6	11.1	7.8
Electric Power	7.0	5.8	6.9	3.5
Construction Materials	5.1	5.4	3.2	1.2
Cement	5.1	3.6	1.6	2.4
Slate	4.8	NA	3.5	-10.0
Soft Roofing	5.7	NA	7.1	-3.0
Machinery	8.3	8.9	6.2	6.0
Consumer Nondurables	3.4	4.6	-0.6	3.5

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